Management Control Process SOP

1. <u>References</u>. Appendix 1

2. <u>Purpose</u>. To define Management Control Process (MCP) procedures and policies which provide:

    a.   General implementation guidance to commanders and managers.

    b.   Detailed instructions to program administrators and points of contact in order to properly execute MCP to published standards.

3. <u>General</u>. All leaders and managers perform management controls. These controls range from the simple to the complex, from locking a door at the end of the day to formal audits of financial records. MCP is nothing more than a means to document the execution and effectiveness of management controls that in all likelihood already take place. When properly implemented, MCP provides reasonable assurance to the entire management team that its daily practices and procedures make sense and properly safeguard entrusted resources.

4. <u>Background</u>. The Federal Managers' Financial Integrity Act requires each executive agency, including the Department of Defense, to:

    a.   Establish management controls to provide reasonable assurance that obligations and costs are in compliance with applicable laws; funds, property and other assets are safeguarded against waste, loss, unauthorized use or misappropriation; revenues and expenditures are properly recorded and accounted for; and programs are efficiently and effectively carried out according to the applicable law and management policy, and

    b.   Report annually to the President and Congress on whether these management controls comply with requirements of the Integrity Act, to include a report identifying any material weaknesses in these management controls, along with plans for their correction, and a report on whether accounting systems comply with the principles, standards and related requirements prescribed by the Comptroller General, to include deficiencies and plans for their correction.

5. <u>Regulatory Guidance</u>. For the Army, AR 11-2 (Management Control) implements The Integrity Act. The MCP as defined by AR 11-2 is based on the "Standards for Internal Controls in the Federal Government" published by the Comptroller General of the United States. These five standards are the criteria against which management control systems are evaluated. They are listed below.

    a.   Control environment. Management and employees should establish and maintain an environment throughout the organization that sets a positive and supportive attitude toward internal control and conscientious management.

b.   Risk assessment. Internal control should provide for an assessment of the risks the agency faces from both external and internal sources.

c.   Control activities. Internal control activities help ensure that management's directives are carried out. The control activities should be effective and efficient in accomplishing the agency's control objectives.

d.   Information and communications. Information should be recorded and communicated to management and others within the entity who need it and in a form and within a time frame that enables them to carry out their internal control and other responsibilities.

e.   Monitoring. Internal control monitoring should assess the quality of performance over time and ensure that the findings of audits and other reviews are promptly resolved.

6. Definition of Terms. Appendix 2 lists pertinent MCP items in alphabetical order.

7. Responsibilities. As the USAREUR MCP program manager, the DCS G8 will:

a.   Serve as the USAREUR "subject matter expert" on MCP, and as such, develop a comprehensive understanding of MCP policies, procedures and required actions as outlined in AR 11-2 and other applicable sources.

b.   Advise the USAREUR staff on the implementation and status of the organization's MCP.

c.   Keep USAREUR staff informed on management control matters.

d.   Identify the organization's requirements for management control training and provide that training.

e.   Ensure that a management control plan is established and maintained to describe how key management controls within USAREUR will be evaluated over a five-year period.

f.   Coordinate the preparation of the USAREUR Annual Assurance Statement on management controls.

g.   Ensure that material weaknesses for which the organization is responsible are tracked until corrected, to include preparing updated action plans for all material weaknesses at mid-year and end of year (in the Annual Assurance Statement).

h.   Retain all required documentation in support of annual statements and the correction of material weaknesses.

i.   Update USAREUR Circular 11-2 as required.

8. Execution. Core actions: Effective execution of MCP involves a range of core actions outlined in AR 11-2 or directed by the DCS G8. The DCS G8 must accomplish these actions to meet regulatory and reporting requirements. These core actions are:

-- Establish the USAREUR Management Control Process Plan.

-- Prepare the USAREUR Annual Assurance Statement.

-- Provide management control training.

Appendices:

1 – References
2 – Definition of Terms
3 – Management Control Plan
4 – Annual Assurance Statement
5 – Training
6 – Performance Agreements
7 – Generic Milestones

Appendix 1

References

AR 11-2, Management Control

Department of Defense Directive 5010.38

Office of Management and Budget Circular No. A-123, Internal Control Systems

Federal Managers' Financial Integrity Act (Public Law 97-255)

United States General Accounting Office by the Comptroller General of the United States Standards for Internal Control in the Federal Government, November 1999

USAREUR Management Control Process homepage on the World Wide Web – http://www.odcsrm.hqusareur.army.mil/rmmp/MCP/Mcp.html or follow the Manpower Division, Allocations and Employment Planning Branch link on the DCS G8 homepage

Office of the Assistant Secretary of the Army (Financial Management and Comptroller) (OASA-FM&C) homepage on the World Wide Web – http://www.asafm.army.mil/ under Financial Operations.

Appendix 2

Definitions of Terms

Alternative Management Control Evaluation. Any existing management review process that meets the basic requirements of a management control evaluation; i.e., it assesses the key management controls, it evaluates these controls by testing them and it provides the required documentation. These existing management review processes may be unique to a specific functional area (e.g., Command Supply Discipline Program) or they may be generic (e.g., Command Inspection Program or audits by Internal Review personnel).

Annual Assurance Statement. An annual report that provides a broad assessment of management controls within the command or agency and identifies any material weaknesses in these management controls.

Assessable Unit. Reporting organizations are segmented into assessable units, which in turn are responsible for conducting management control evaluations in accordance with the Management Control Plan.

Assessable Unit Manager. The military or civilian head of an assessable unit. Assessable unit managers must be at least a Colonel or GS-15, with the exception of Army garrisons, where an assessable unit may be headed by the senior functional manager (e.g., the DRM, DOL, etc.). The Assessable Unit Manager certifies the results of required management control evaluations.

Key Management Controls. Those absolutely essential management controls which must be implemented and sustained in daily operations to ensure organizational effectiveness and compliance with legal requirements (that is, a key management control is one whose failure would "break" or seriously impair a system or process). Key management controls are identified by HQDA functional proponents in their governing ARs and establish the baseline requirement for management control evaluations conducted by assessable unit managers.

Management Controls. The rules, procedures, techniques and devices employed by managers to ensure that what should occur in their daily operations does occur on a continuing basis. Management controls include such things as the organizational structure itself (designating specific responsibilities and accountability), formally defined procedures (e.g., required certifications and reconciliations), checks and balances (e.g., separation of duties), recurring reports and management reviews, supervisory monitoring, physical devices (e.g., locks and fences) and a broad array of measures used by managers to provide reasonable assurance that their subordinates are performing as intended.

Management Control Administrator. The individual designated by the senior responsible official to administer the management control process for a reporting organization.

Management Control Evaluation. A periodic, detailed assessment of key management controls to determine whether they are operating as intended. This assessment must be based on the actual testing of key management controls and must be supported by documentation; i.e., the individual(s) who conducted the evaluation and the date, the methods used to test the controls, any deficiencies detected and the corrective action taken.

Management Control Evaluation Checklist. One method for conducting a management control evaluation. The HQDA functional proponent may develop a standard checklist that addresses the key management controls and publish it in their governing AR. The purpose of a management control evaluation checklist is to provide managers a tool to help them evaluate the effectiveness of these key management controls.

Management Control Plan. The written plan that describes how required management control evaluations will be conducted over a five-year period.

Management control responsibilities. Those responsibilities outlined in Chapter 1 of AR 11-2 and any other management control responsibilities that commanders or managers assign to their subordinates.

Management Control Weakness. The absence or ineffectiveness of management controls (e.g., management controls are not in place or are in place but are not being used or are in place and being used but are not effective).

Material Weakness. A management control weakness that warrants reporting to the next level of command, either for action or awareness.

Performance Agreement. Refers to the Officer Evaluation Report Support Form (DA Form 67-8-1) for military officers and the Senior System Civilian Evaluation Report Support Form (DA Form 7222-1) for "Senior System" civilian employees. For non-appropriated fund personnel, guidance on performance agreements and standards is provided in AR 215-3.

Reasonable Assurance. An acceptable degree of confidence in the general adequacy of management controls to deter or detect material failures in complying with the Integrity Act objectives. The determination of reasonable assurance is a management judgment based on the effectiveness of management controls and the extent of management control deficiencies and material weaknesses.

Senior Responsible Official. The senior official designated by the head of the reporting organization with overall responsibility for ensuring the implementation of the MCP within the organization.

Appendix 3

Management Control Plan

1. <u>Policy</u>. The DCS G8 will establish and maintain a management control plan to describe how key management controls will be evaluated over a five-year period.

2. <u>Definitions</u>.

    a.   Management control plan. The written plan that describes how required management control evaluations will be conducted over a five-year period.

    b.   Key management controls. Those absolutely essential management controls which must be implemented and sustained in daily operations to ensure organizational effectiveness and compliance requirements (that is, a key management control is one whose failure would "break" or seriously impair a system or process). Key management controls are identified by HQDA functional proponents in their governing ARs and establish the baseline requirement for management control evaluations conducted by assessable unit managers.

3. <u>Procedures</u>.

    a.   The DCS G8 will develop the management control plan based on the plan prepared by HQDA. The objective is to tailor the plan to the needs of USAREUR while ensuring evaluation of the key controls directed by HQDA.

    b.   Development of the plan will include reviewing the inventory of functions that require evaluations and identifying those applicable to USAREUR organizations. Any other functions that are to be evaluated will be identified. The DCS G8 provides final approval of the plan prior to implementation.

Appendix 4

Annual Assurance Statement

1. <u>Policy</u>. In fulfillment of DOD directives and Army regulations, the DCS G8 will prepare an Annual Assurance Statement (AAS) for the CG's signature that accurately describes the status of management controls within USAREUR.

2. <u>Procedures</u>.

   a. The DCS G8 coordinates a three-step process which culminates with an Annual Assurance Statement. In this statement, the CG personally certifies that its content accurately describes the status of USAREUR management controls and provides a basis for that determination.

      -- Step 1. Each USAREUR staff element submits to the MCP program manager his/her own AAS to include either initial or updated material weakness reports.

      -- Step 2. The MCP program manager compiles all statements, drafts the CG's AAS and sends the draft to IRACO and OIG for review. Upon approval, the program manager submits the AAS to the command group for approval.

      -- Step 3. Following CG signature, the program manager forwards it to HQDA (ASA (FM&C)) for inclusion in the Department of the Army Annual Assurance Statement.

   b.   Categories of assurance statements.

      -- Unqualified Statement of Assurance. "I have reasonable assurance that USAREUR's management controls are in place and are operating effectively." An unqualified statement of assurance must be supported by clear indications that subordinates understand and adhere to the Comptroller General standards; are formally held accountable for the effectiveness of their management controls; have evaluated key management controls as required by applicable MCPs; and have reported material weaknesses and have taken corrective action to resolve them.

      -- Qualified Statement of Assurance. "I have reasonable assurance that USAREUR's management controls are in place and are operating effectively except for (identify material weaknesses)." The material weaknesses in management controls that preclude an unqualified statement should be cited. Also cite any control problems that were identified and corrected during the fiscal year.

   c.   Format.

      -- A cover memorandum signed by the CG. It is a broad assessment of USAREUR's management controls to include the supporting basis for the assessment. This memorandum includes the actual statement of assurance, either an unqualified statement ("I have reasonable

assurance …") or a qualified statement ("I have reasonable assurance except for …"). The cover memorandum may also be used to address significant issues or concerns that relate to the effectiveness of management controls.

    -- TAB A. Description of how the MCP was conducted in USAREUR (e.g., development of the management control plan, the extent of management control training conducted) and the basis for the determination of reasonable assurance. This section should describe how the determination of reasonable assurance was reached. This description may cite processes such as management control evaluations, audit or inspection reports and other management reviews. Specific information and discussion should address the areas of **command emphasis, training and program administration.**

    -- The section on **Command Emphasis** might include:

- Issuing memoranda or messages to subordinate activities to provide special guidance or give command emphasis on the importance of effective management controls.
- Establishing management councils or committees to advise on management control issues such as what management control problems to report as material weaknesses and to monitor progress on the correction of previously reported material weaknesses.
- Any other innovative approaches providing command emphasis to the management control process (e.g., using the management control plan as part of the principal's management oversight process).

    -- The section on **Training** might include:

- The type of training provided (specifically, in-house, USAREUR or DA) and the total numbers of personnel receiving each type of training.
- Innovative approaches used to provide training throughout USAREUR (e.g., bulletin boards, newsletters, etc.)

    -- The section on **Program Administration** might include:

- Efforts to assess the effectiveness of the MCP and improve its execution.
- Embedding management control evaluations into other existing management review processes (e.g., Physical Security Inspection Program, Command Supply Discipline Program, etc.).

    -- TAB B which includes all of the material weaknesses being reported, both those being reported for the first time and updates of previously reported weaknesses.

Appendix 5

Training

1. Policy. The MCP program manager will identify USAREUR requirements for management control training and provide for that training on at least an annual basis.

2. Definitions. None.

3. Procedures.

    a. Frequency. The USAREUR program manager coordinates and conducts management control training at least once a year. Additionally, USAREUR staff elements may request program manager support to provide or develop training for their organization.

    b. Training content. The program manager will determine training content based on a number of factors, to include DA guidance, employee turnover, weaknesses in management control implementation, etc.

    c. Resources. The management control staff in ASA(FM&C) develops and distributes training materials designed to provide MCP program managers with training tools. These materials include briefing charts, videotapes, examples of management control problems and case studies.

Appendix 6

Performance Agreements

1. <u>Policy</u>. Supervisors must include an explicit statement of responsibility for management controls in the performance agreements of key subordinates responsible for the execution and/or oversight of effective management controls. The absence of an explicit statement of responsibility must be based on the supervisor's determination that the individual does not have significant management responsibilities.

2. <u>Definitions</u>.

    a.   Performance Agreement. Refers to the Officer Evaluation Report Support Form (DA Form 67-8-1) for military officers and the Senior System Civilian Evaluation Report Support Form (DA Form 7222-1) for "Senior System" civilian employees. For non-appropriated fund personnel, guidance on performance agreements and standards is provided in AR 215-3.

    b.   Management control responsibilities. Those responsibilities outlined in Chapter 1 of AR 11-2 and any other management control responsibilities that commanders or managers assign to their subordinates.

3. <u>Procedures</u>.

    a.   An explicit statement of responsibility should be reflected in performance agreements as follows:

        -- For military officers it should be reflected under "Major Performance Objectives" in Part IV of the Officer Evaluation Report Support Form (DA Form 67-8-1).

        -- For "Senior System" civilian employees, it should be reflected under "Major Performance Objectives/Individual Performance Standards" in Part IV of the Senior System Civilian Evaluation Report Support Form (DA Form 7222-1).

        -- For non-appropriated fund personnel, see guidance in AR 215-3.

    b.   The statement of responsibility should be brief and may take any form, but it must be specific enough to provide individual accountability. Supervisors may use a stand-alone element or may include the management control responsibility as part of a broader element.

Appendix 7

USAREUR Management Control Process Generic FY Milestones

Target Month	Action
October	Assessable unit manager exception to policy memo to ASA(FM&C)
	Make arrangements for new fiscal year training
December	Prepare USAREUR MCP plan and send to MCP POCs (Based on ASA(FM&C) plan)
February	Managers and/or MCP administrators course(s)
March	Mid-year review of material weaknesses
May	Instructions received from ASA(FM&C) for AAS preparation
	Issue feeder statement instructions to staff
June	Feeder statements due from staff
July	Prepare draft AAS
August	Submit signed AAS to ASA(FM&C)